



November 24, 2008

Weekly Market Commentary

All major domestic equity indexes moved lower last week as U.S. stocks are on course to experience the worst yearly percentage decline since the Great Depression. The industrial real estate investment trust (REIT) group was the worst performer for the second week in a row, down 40%, led by its single-member, ProLogis, which said it would halt new projects not in its pipeline in reaction to slowing demand for warehouse and factory space. The diversified financial services group was the second-worst performing group, down 38%. Each of the group's large banks: Citigroup, JPMorgan Chase & Co and Bank of America declined sharply.

On the upside, the gold group was the best-performing group for the week, up 19%, led by Newmont Mining, its only member. The education services group was among the outperformers, increasing by 3%, led by its only member, Apollo Group Inc.– which is benefiting from the poor economy as job seekers return to school in order to improve their professional competitiveness.

Treasury yields fell and bond price rose sharply last week as fear resurfaced in the financial markets. The combination of weak economic news and the lack of government assistance for U.S. automakers continued the frantic flight-to-quality of monies into the safest of investment vehicles.

	Key Market Data		
	Week ending		
	11/21/08	11/14/08	Change
Dow Jones Industrial Average Index	8,046.42	8,497.31	-5.31%
S&P 500 Index	800.03	873.29	-8.39%
NASDAQ Composite Index	1,384.35	1,516.85	-8.74%
10-Year Treasury Note Rate	3.20%	3.74%	-0.54%
NYMEX Crude Future (Barrel)	\$49.93	\$57.04	-\$7.11
Euro/U.S. Dollar	\$1.2589	\$1.2599	-\$0.0010

Uncertainty continued to be the main driver in a volatile and downward market that was characterized by several developments last week. First, U.S. Treasury Secretary Hank Paulson, in a reversal from earlier statements, announced a shift in the direction of the Treasury Department's Troubled Assets Relief Program (TARP) by stating there was no need for any new financial rescue efforts. Then, negative news from Citigroup, the Big Three automakers and from a number of major economic releases deepened the market's concerns about how long the economic slowdown will last. In reaction to the negative news and Paulson's reversal, equity investors became increasingly confused as to how their investments would fare if the U.S. government played a role in nationalizing financial entities, and placed further downward price pressure on the market, which left many stocks trading in a range that was actually worse than before the U.S.

government bailout plan was announced. By the end of the week, Treasury Department officials indicated they were preparing for a new round of rescue initiatives.

The broader view

Last week's losses at one point wiped out the gains recorded during the bull market move from the October 2002 low to the October 2007 high. The S&P 500 Index fell at one point to levels not seen since 1997. Year-to-date as of last week, the S&P 500 Index was down 45.5% and may be on course for the worst recorded year ever. The worst post-Great Depression year was 1947 when the S&P 500 Index delivered -29.7%. S&P 500 Index performance was worse during two Great Depression years: -41.9% and -38.6% at year-end 1931 and year-end 1937, respectively. With the breakthrough of the 2002 bear market low of 776.76 set on Oct. 9, 2002 behind us, we will be watching for a new technical testing of the next low of 743.73, the benchmark's close on April 14, 1997.

It is highly probable that we are in the midst of a synchronized global recession. For instance, consumer credit is likely to plunge over 15% in the fourth quarter and credit card companies have witnessed an increase in delinquencies which will likely continue into 2009. In addition, commercial real estate looks vulnerable. In the past couple of weeks, several indicators have shown further deterioration in commercial real estate conditions. For instance, the Commercial Leading Indicator for Brokerage Activity, compiled by the National Association of Realtors tumbled 1.7% in September, its second biggest drop on record, to its lowest value since March 2005. Of the 13 components measured, 12 declined.

Without a doubt, with so many investments under pressure, many investors are

questioning the merits of owning a well-diversified portfolio. It is virtually impossible for long-term investors to immunize their portfolios from markets that are driven in the short-run by increased systemic risk – such as the near collapse of the global banking system, which was avoided early this fall, and by fears, which we believe are very real but, are hopefully avoided by intelligent collaboration, over the bankruptcy of the Big Three automakers. Warren Buffet recently described this “negative feedback loop” as one in which fear and panic have irrationally driven prices to levels that would correspond to a depression. While we cannot guarantee that will not occur it is hard to imagine that global policy makers would not continue to use every conceivable policy tool available to avert such a deflationary spiral. When there is no longer any bad news left, the markets, based on historical valuations, should rally.

We believe much can be learned from the perspective of more seasoned investors. What do they see that the rest do not? Simply this: While a long-term investment strategy may not seem to work day-to-day in the current environment, it *does tend to work over time*. Different markets have proven to fall or rise at different rates of speed. Seasoned investors know the importance of waiting out a moment of panic by not giving in to the temptation to time the market. It's human nature to want out of the market during adversity – usually after most of the damage has been done. Psychologically, it is much more difficult to feel comfortable about re-entering the market – and typically investors do so – after the market has recovered a significant amount of what it gave up. It could be said, for example, that some of that amount may have been recovered last Friday. The nearly 500 point gain on the Dow Jones Industrial Average

Index was largely credited to the announcement of Tim Geithner, currently the head of the New York Federal Reserve, as the next Treasury Secretary. Unfortunately, we can't be certain until we have fully declared this bear market dead.

A look ahead

Along with Mr. Geithner's nomination, several other key appointments to the administration by President-elect Barack Obama will hopefully continue to calm

some frayed investor nerves during this holiday-shortened week. Any tranquility from any quarter will be welcome, because the economic data this week will likely indicate further weakness in durable goods sales, consumer spending, and housing data. A dizzying 10 economic indicators will be released on Tuesday and Wednesday alone.

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